



**Office of the Washington State Auditor
Pat McCarthy**

January 11, 2024

Board of Commissioners
Silver Lake Water and Sewer District
Bothell, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of the Silver Lake Water and Sewer District for the fiscal years ended December 31, 2021 and 2020. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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Silver Lake Water & Sewer District



**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2021 AND 2020

**SILVER LAKE WATER AND SEWER DISTRICT
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Silver Lake Water and Sewer District
Bothell, Washington

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Silver Lake Water and Sewer District (the District) as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Silver Lake Water and Sewer District, as of December 31, 2021 and 2020, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Silver Lake Water and Sewer District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Silver Lake Water and Sewer District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Silver Lake Water and Sewer District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Silver Lake Water and Sewer District's ability to continue as a going concern for a reasonable period of time

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Silver Lake Water and Sewer District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2022, on our consideration of Silver Lake Water and Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Silver Lake Water and Sewer District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Bellevue, Washington
December 12, 2022

**SILVER LAKE WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020**

INTRODUCTION

Silver Lake Water and Sewer District was founded in 1934 and provides water and sewer services to customers residing within the District boundaries. The District's primary mission is to provide its customers with high quality water for today and into the future at a fair and equitable price, while meeting overall public and regulatory approval. The District has secondary goals of providing fire flow, maintaining level of service goals, and maintaining the financial health of the District. The District has prioritized the following goals and objectives:

1. Protect the health and safety of District employees and customers.
2. Meet or exceed regulatory requirements and industry standards for water quality, levels of service and operation and maintenance practices.
3. Provide a high standard of service at an affordable rate.
4. Provide fire flow while maintaining a minimum pressure of 20 psi system wide.
5. Maintain the financial viability of the District.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2021 and 2020, and our financial performance for the years then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include statements of net position, statements of revenues, expenses, and changes in fund net position, statements of cash flows, and notes to the financial statements.

The statements of net position present total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals reported as net position. These statements provide information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to future periods (deferred outflows), obligations to District creditors (liabilities) and the acquisition of resources that are applicable to a future reporting period (deferred inflows). They provide a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

The statements of revenues, expenses, and changes in fund net position present the results of the District's business activities over the course of the year. This information can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, and to evaluate our profitability and credit worthiness.

The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, financing, and investing activities over the course of the year. They present information regarding where cash came from and what it was used for.

**SILVER LAKE WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The notes to the financial statements provide useful information regarding the District's significant accounting policies, explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Capital Assets	\$ 160,122,707	\$ 159,867,632	\$ 156,251,848
Other Assets	58,317,460	50,230,038	48,300,224
Total Assets	<u>218,440,167</u>	<u>210,097,670</u>	<u>204,552,072</u>
Deferred Outflows of Resources	375,438	357,986	319,551
Long-Term Liabilities	7,064,804	8,246,774	7,369,481
Other Liabilities	2,800,914	2,550,156	2,930,311
Total Liabilities	<u>9,865,718</u>	<u>10,796,930</u>	<u>10,299,792</u>
Deferred Inflows of Resources	2,672,306	294,089	557,628
Net Investment in Capital Assets	154,044,988	153,485,007	150,208,622
Restricted Amounts	2,583,430	-	-
Unrestricted Amounts	49,649,163	45,879,630	43,805,581
Total Net Position	<u><u>\$ 206,277,581</u></u>	<u><u>\$ 199,364,637</u></u>	<u><u>\$ 194,014,203</u></u>

**SILVER LAKE WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION FOR THE YEARS ENDED DECEMBER 31**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Sewer Service Revenue	\$ 16,424,512	\$ 14,751,349	\$ 14,511,733
Water Service Revenue	9,400,647	6,280,127	6,217,419
Other Sewer Operating Revenues	259,571	222,800	172,145
Other Water Operating Revenues	371,702	420,982	385,158
Total Operating Revenues	<u>26,456,432</u>	<u>21,675,258</u>	<u>21,286,455</u>
Sewer Operation and Maintenance Expenses	11,064,992	10,433,178	9,350,819
Water Operation and Maintenance Expenses	3,177,440	3,189,153	3,569,481
Sewer General and Administrative Expenses	2,120,733	2,446,699	2,095,116
Water General and Administrative Expenses	3,197,128	3,592,041	2,701,587
Depreciation, Sewer	2,239,954	2,122,875	2,045,124
Depreciation, Water	1,533,947	1,498,179	1,428,053
Total Operating Expenses	<u>23,334,194</u>	<u>23,282,125</u>	<u>21,190,180</u>
Operating Income	3,122,238	(1,606,867)	96,275
Nonoperating Revenue (Expense):			
Investment and Assessment Income	44,651	282,359	1,016,100
Interest on Long-Term Debt	(26,982)	(28,342)	(27,333)
Private Property Improvements	-	(18,934)	-
Net Gain (Loss) on Disposal of Assets	(709,143)	9,924	24,686
Total Nonoperating Revenue (Expense)	<u>(691,474)</u>	<u>245,007</u>	<u>1,013,453</u>
Income before Capital Contributions	2,430,764	(1,361,860)	1,109,728
Capital Contributions	<u>4,482,180</u>	<u>6,712,294</u>	<u>3,070,045</u>
Increase in Net Position	6,912,944	5,350,434	4,179,773
Net Position - January 1	199,364,637	194,014,203	194,957,805
Restatement - Changes in Accounting Principle	-	-	(5,123,375)
Net Position - January 1, as Restated	<u>199,364,637</u>	<u>194,014,203</u>	<u>189,834,430</u>
Net Position - December 31	<u>\$ 206,277,581</u>	<u>\$ 199,364,637</u>	<u>\$ 194,014,203</u>

**SILVER LAKE WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020**

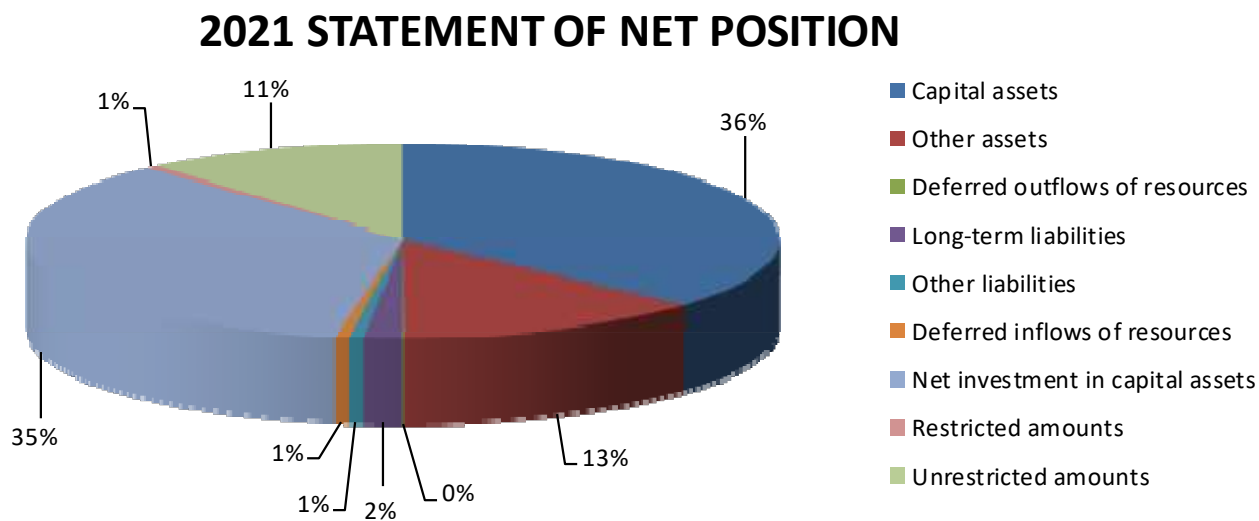
FINANCIAL POSITION

The District's overall financial position continues to be strong with sufficient liquidity, growing revenues and debt capacity to finance future capital improvements if necessary.

The District is financed primarily by equity and substantial liquid assets are available to fund liabilities and construction. Capital assets increased in 2021 and 2020 due to growth in the District's customer base and system improvements.

The District is located in a growing area of Snohomish County, Washington.

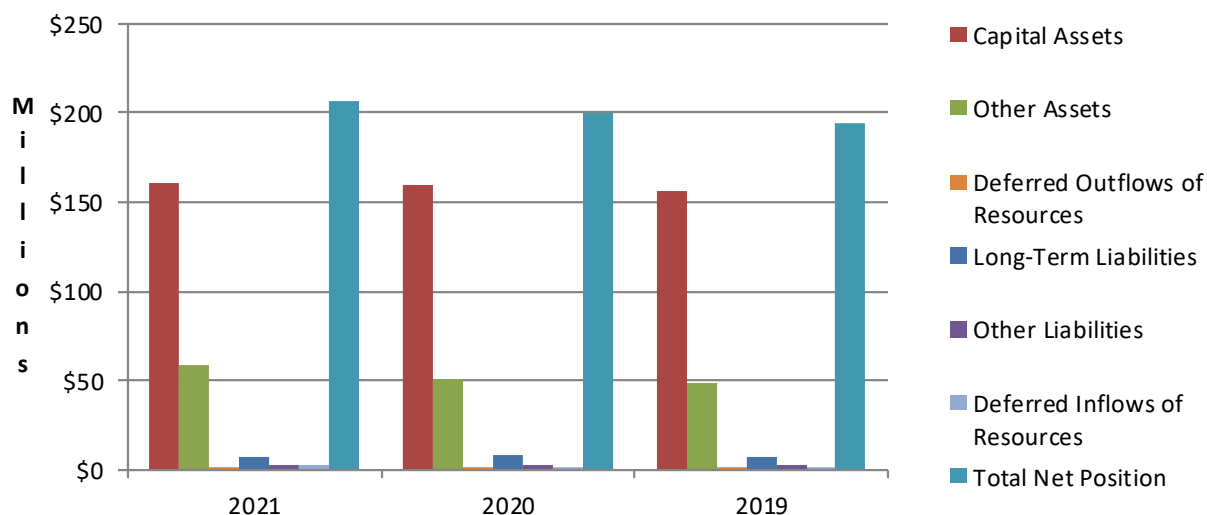
The following charts indicate the components of financial position:



**SILVER LAKE WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020**

FINANCIAL POSITION (CONTINUED)

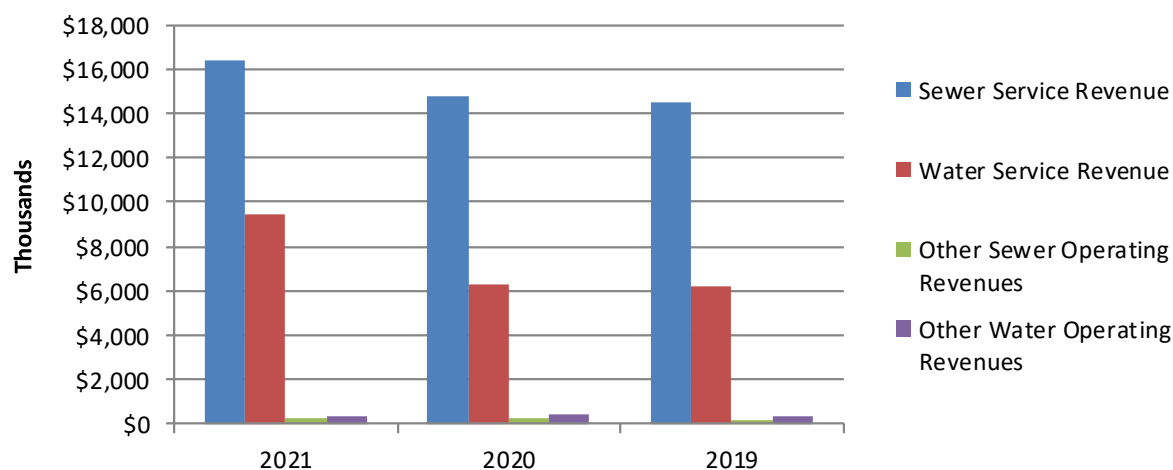
COMPARATIVE STATEMENT OF NET POSITION



RESULTS OF OPERATIONS

Operating revenues are received principally from two sources: water service and sewer service. The following chart indicates operating revenue over the last three years:

OPERATING REVENUES

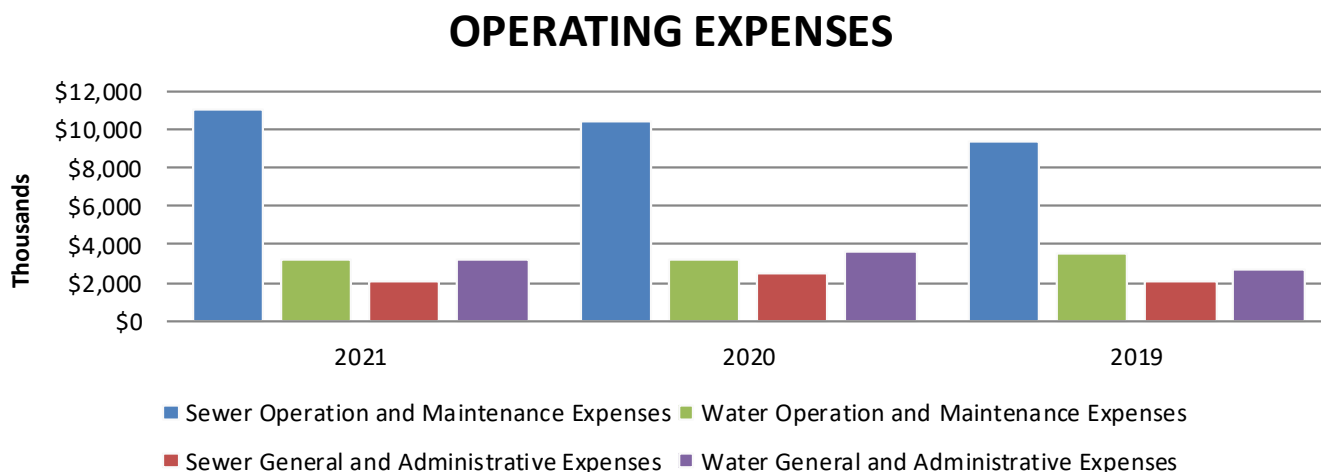


The increase in sewer revenue in 2021 and 2020 was due to growth in the customer base and rate increases. Water usage, and corresponding revenues, can vary significantly due to weather conditions. Water revenue increased in 2021 primarily due to rate increases. 2020 was consistent with 2019.

**SILVER LAKE WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020**

RESULTS OF OPERATIONS (CONTINUED)

The following chart indicates operating expenses over the last three years:



Sewer operation and maintenance expenses increased 2021 primarily due to rate increases for sewage treatment and growth in the customer base. Sewer operation and maintenance expenses increased in 2020 primarily due to rate increases for sewage treatment, a change in the allocation of personnel costs and the lift station projects. Water operation and maintenance expenses in 2021 were comparable to 2020. Water operation and maintenance expenses decreased in 2020 due to change in allocation of personnel costs and decrease in costs of supplies. Sewer and water general and administrative expenses decreased in 2021 primarily due to decreases in pension and OPEB expense due to differences between expected and actual earnings on pension plan investments and changes in experience data and assumptions for the OPEB plan. Sewer and water general and administrative expenses increased in 2020 primarily due to increases in personnel costs.

The District operated at a profit in 2021 and 2019, and at a loss in 2020. Operating results are augmented by earnings on investments, capital contributions, and other nonoperating revenues, less nonoperating expenses.

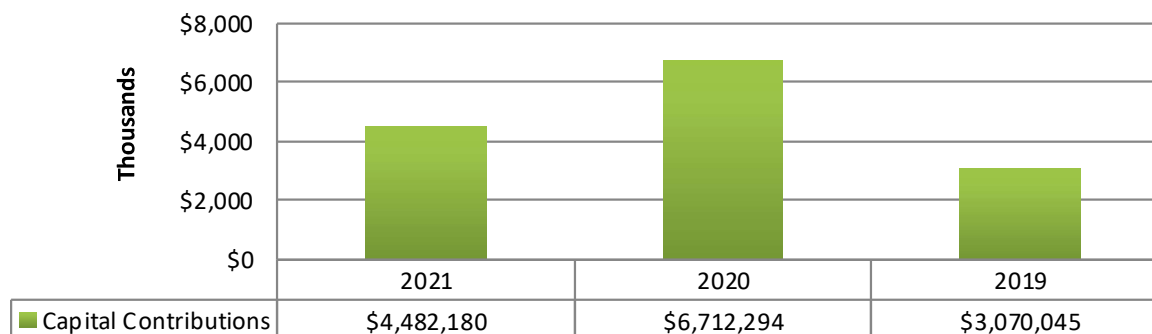
The District collects capital contributions from new customers. These contributions consist of connection charges, grants, ULID assessments and donated systems.

**SILVER LAKE WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020**

RESULTS OF OPERATIONS (CONTINUED)

The following chart indicates capital contributions over the last three years:

CAPITAL CONTRIBUTIONS



The contributions are indicative of the growth of the District and include donated systems totaling \$2,193,674, \$1,985,933, and \$2,264,802 for the years ended December 31, 2021, 2020, and 2019, respectively. The growth of the District is increasing due to the effects of the improving overall economy.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital assets increased in 2021 and 2020 due to growth in the District's customer base and system improvements. Significant capital asset additions included the following:

2021		2020	
Water System:		Water System:	
Donated Systems	\$ 760,585	Donated Systems	\$ 1,250,818
131st Street Water Main	79,924	131st Street Water Main	45,190
Silver Acres Intertie	408,212	Silver Acres Intertie	53,267
Developer Participation	154,185		
Reservoir 3 and 4 Chlorine Booster	112,978		
Sewer System:		Sewer System:	
Donated Systems	1,433,089	Donated Systems	735,115
Waldenwood Lift Station	229,372	Waldenwood Lift Station	3,653,353
Windsong Lift Station	897,449	Windsong Lift Station	36,107
Thomas Lake LS Improvements	172,184	Thomas Lake LS Improvements	55,674
Pioneer Trails LS improvements	323,019	Pioneer Trails LS improvements	101,059
Lift Station 4	116,293	12th Street NE Dike #3435	57,335
WPCF Trickling #3742	157,881	#3614-North Chlorine Bldg.	129,224
		WPCF Trickling #3742	111,919
		Bio-Solids App Site #3706	101,253

**SILVER LAKE WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020**

CAPITAL ASSETS AND LONG-TERM DEBT (CONTINUED)

The decrease in long-term liabilities in 2021 was due to principal payments made by the District and decreases in pension liabilities primarily due to differences between projected and actual earning on pension plan investments in the underlying plans. Long-term liabilities increased in 2020 primarily due to an increase in the OPEB liability cases by changes in experience data and assumptions.

See Notes 3, 4, and 5 in the financial statements for detail activity in capital assets and long-term debt.

As of December 31, 2021, the District has \$51,847,684 of unrestricted cash and investments available for operating costs and capital asset acquisition of which \$96,244 is committed under existing contracts.

The District is committed to pay a portion of certain City of Everett projects. See Note 9 in the financial statements for the District's estimated share of these projects over the next 10 years.

ADDITIONAL COMMENTS

The District purchases wholesale water and sewage treatment services from other entities. The District intends to adjust rates to compensate for increases in these direct costs.

**SILVER LAKE WATER AND SEWER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Unrestricted:		
Cash	\$ 5,883,926	\$ 5,678,896
Investments	45,963,758	41,417,261
Accounts Receivable	2,688,826	1,925,078
Unbilled Utility Service Receivable	926,523	727,473
Accounts Receivable, Other	-	246,522
Prepaid Expenses	-	15,798
Materials and Supplies	270,997	219,010
Total Current Assets	<u>55,734,030</u>	<u>50,230,038</u>
NONCURRENT ASSETS		
Restricted:		
Net Pension Asset	2,583,430	-
Capital Assets not being Depreciated:		
Land and Land Rights	3,449,020	3,449,020
Construction in Progress	1,639,780	5,408,887
Capital Assets being Depreciated:		
Plant in Service	223,583,186	216,785,958
Less: Accumulated Depreciation	<u>(68,549,279)</u>	<u>(65,776,233)</u>
Net Capital Assets	<u>160,122,707</u>	<u>159,867,632</u>
Total Noncurrent Assets	<u>162,706,137</u>	<u>159,867,632</u>
Total Assets	218,440,167	210,097,670
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions	369,422	353,816
Deferred Outflows Related to Other Postemployment Benefits	<u>6,016</u>	<u>4,170</u>
Total Deferred Outflows of Resources	<u>375,438</u>	<u>357,986</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 218,815,605</u></u>	<u><u>\$ 210,455,656</u></u>

See accompanying Notes to Financial Statements.

**SILVER LAKE WATER AND SEWER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Accounts Payable	\$ 1,819,305	\$ 1,705,268
Retainage Payable	28,154	-
Accrued Compensated Absences	402,000	309,000
Deposits	620	5,695
Accrued Interest	15,312	16,103
Long-Term Debt, Current Maturities	535,523	514,090
Total Current Liabilities	<u>2,800,914</u>	<u>2,550,156</u>
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Maturities	5,257,392	5,557,146
Compensated Absences	62,586	127,693
Net Pension Liability	246,700	947,423
Other Postemployment Benefits Liability	1,498,126	1,614,512
Total Noncurrent Liabilities	<u>7,064,804</u>	<u>8,246,774</u>
 Total Liabilities	 9,865,718	 10,796,930
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions	<u>2,672,306</u>	<u>294,089</u>
 Total Liabilities and Deferred Inflows of Resources	 12,538,024	 11,091,019
NET POSITION		
Net Investment in Capital Assets	154,044,988	153,485,007
Restricted for Pensions	2,583,430	-
Unrestricted	49,649,163	45,879,630
Total Net Position	<u>206,277,581</u>	<u>199,364,637</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 218,815,605</u>	 <u>\$ 210,455,656</u>

See accompanying Notes to Financial Statements.

SILVER LAKE WATER AND SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Service Charges	\$ 25,825,159	\$ 21,031,476
Permits	152,836	119,134
Miscellaneous	478,437	524,648
Total Operating Revenues	<u>26,456,432</u>	<u>21,675,258</u>
OPERATING EXPENSES		
Operation Expenses	13,092,566	12,093,975
Maintenance Expenses	1,149,866	1,528,356
General and Administrative	5,317,861	6,038,740
Depreciation	3,773,901	3,621,054
Total Operating Expenses	<u>23,334,194</u>	<u>23,282,125</u>
OPERATING INCOME (LOSS)	3,122,238	(1,606,867)
NONOPERATING REVENUE		
Investment and Assessment Income	44,651	282,359
Interest and Amortization on Long-Term Debt	(26,982)	(28,342)
Private Property Improvements	-	(18,934)
Net Gain on Disposal of Assets	(709,143)	9,924
Total Nonoperating Revenue	<u>(691,474)</u>	<u>245,007</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	2,430,764	(1,361,860)
Capital Contributions	<u>4,482,180</u>	<u>6,712,294</u>
CHANGE IN NET POSITION	6,912,944	5,350,434
Net Position - Beginning of Year	<u>199,364,637</u>	<u>194,014,203</u>
NET POSITION - END OF YEAR	<u><u>\$ 206,277,581</u></u>	<u><u>\$ 199,364,637</u></u>

See accompanying Notes to Financial Statements.

**SILVER LAKE WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Other	\$ 25,578,742	\$ 21,519,382
Cash Paid to Vendors	(15,493,429)	(15,506,964)
Cash Paid to and for Employees and Commissioners	<u>(4,901,509)</u>	<u>(4,385,519)</u>
Net Cash Provided by Operating Activities	5,183,804	1,626,899
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions in Aid of Construction	2,400,196	4,614,671
Proceeds from Issuance of Long-Term Debt	248,294	829,798
Proceeds from Disposal of Assets	277,428	58,150
Expenditures for Plant in Service and Construction	(2,848,458)	(5,280,124)
Payment on Long-Term Debt	(526,615)	(509,406)
Interest Paid on Long-Term Debt	<u>(27,773)</u>	<u>(27,058)</u>
Net Cash Used by Capital and Related Financing Activities	(476,928)	(313,969)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Proceeds (Purchases), Net	(4,546,497)	226,787
Interest Received on Investments	<u>44,651</u>	<u>282,359</u>
Net Cash Provided (Used) by Investing Activities	<u>(4,501,846)</u>	<u>509,146</u>
NET INCREASE IN CASH	205,030	1,822,076
Cash - Beginning of Year	<u>5,678,896</u>	<u>3,856,820</u>
CASH - END OF YEAR	<u><u>\$ 5,883,926</u></u>	<u><u>\$ 5,678,896</u></u>

See accompanying Notes to Financial Statements.

**SILVER LAKE WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 3,122,238	\$ (1,606,867)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	3,773,901	3,621,054
(Increase) Decrease in Assets and Deferred Outflows of Resources:		
Receivables	(827,966)	(186,666)
Materials and Supplies	(51,987)	(45,967)
Prepaid Expenses	15,798	9,797
Net Pension Asset	(2,583,430)	-
Deferred Outflows Related to Pensions	(15,606)	(40,398)
Deferred Outflows Related to Other Postemployment Benefits	(1,846)	1,963
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:		
Accounts Payable	168,776	(399,514)
Accrued Compensated Absences	27,893	71,251
Deposits	(5,075)	(8,680)
Other Postemployment Benefits Liability	(116,386)	534,311
Net Pension Liability	(700,723)	(40,912)
Deferred Inflows Related to Pensions	2,378,217	(263,539)
Private Property Improvements	<u>-</u>	<u>(18,934)</u>
Net Cash Provided by Operating Activities	<u>\$ 5,183,804</u>	<u>\$ 1,626,899</u>
SUPPLEMENTAL DISCLOSURES OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES		
Utility Plant Donations Received	<u>\$ 2,193,674</u>	<u>\$ 1,985,933</u>
Capital Contributions Receivable	<u>\$ (111,690)</u>	<u>\$ 111,690</u>

See accompanying Notes to Financial Statements.

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Silver Lake Water and Sewer District (the District), a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating water and sewer systems within its boundaries, which encompass an area in south Snohomish County. The District is governed by an elected three-member board and has no component units.

Basis of Presentation and Accounting

These financial statements are prepared utilizing the economic resources measurement focus and full accrual basis of accounting. All activities of the District are accounted for within a single proprietary (enterprise) fund.

Investments

Investments in the State of Washington Treasurer's Investment Pool are stated at share price which is equal to amortized cost.

Accounts Receivable

The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts are considered fully collectible since nonpayment of an account can result in a lien assessment filed against the property. Therefore, no allowance for doubtful accounts has been provided in the financial statements.

Materials and Supplies

Materials and supplies are inventories available for future use and are stated at the lower of cost (FIFO) or net realizable value.

Capital Assets

Capital assets are stated at cost. For water and sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at acquisition value, which is determined by the contributing party's estimated cost. Expenditures for capital assets exceeding \$5,000, including capital leases and major repairs that increase useful lives, are capitalized. Certain assets including motor vehicles and trailers are capitalized regardless of cost. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Water System	10 to 75 Years
Sewer System	30 to 75 Years
Office Building and Improvements	10 to 40 Years
Equipment and Other	3 to 10 Years

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset only.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of contributions to the OPEB plan subsequent to the June 30 measurement date, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. OPEB and pension plan contributions subsequent to the measurement date are recognized as a reduction of the total OPEB liability, net pension liability or as an addition to the net pension asset, in the following year. Deferred outflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Accrued Compensated Absences

The District accrues accumulated unpaid vacation and sick leave benefit amounts as earned. District employees accumulate vacation and sick leave hours, subject to certain restrictions, for subsequent use or payment upon termination, retirement, or death.

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Net position is classified in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, and capital-related deferred outflows of resources reduced by the outstanding balances of any capital-related borrowings and deferred inflows of resources. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of the net pension asset, without addition for deferred outflows of resources related to pensions or reduction for deferred inflows of resources related to pensions, and assets restricted by external creditors (such as through debt covenants), grantors, contributors or others, and deferred outflows of resources related to those assets, reduced by related liabilities, and deferred inflows of resources.

Unrestricted Net Position – This component of net position consists of all net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The District applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net resources are available based on management’s discretion.

Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues result from providing products and services in connection with the District’s water and sewer systems. Operating expenses include the costs associated with providing the District’s products and services, general and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are classified as nonoperating revenues and expenses.

Capital Contributions

ULID assessments and contributions in aid of construction from property owners are recorded as capital contribution revenue.

Use of Estimates in Financial Statement Preparation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Cash on hand at December 31, 2021 and 2020, was \$600 and \$600, respectively. The District's bank balances as of December 31, 2021 and 2020, were \$5,883,326 and \$5,678,296, respectively.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District deposits and certificates of deposit are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

As required by state law, all investments of the District's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, certificates of deposit with Washington State Banks and the Local Government Investment Pool managed by the Washington State Treasurer's office.

As of December 31, the District had the following investments, which are measured at amortized cost:

	2021	2020
Local Government Investment Pool	<u>\$ 45,963,758</u>	<u>\$ 41,417,261</u>

Investments in Local Government Investment Pool

The District is a voluntary participant in the Local Government Investment Pool (LGIP), an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, or online at www.tre.wa.gov.

SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 3 CAPITAL ASSETS

Major classes of capital assets and capital asset activity was as follows:

2021				
	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Capital Assets not being Depreciated:				
Land and Land Rights	\$ 3,449,020	\$ -	\$ -	\$ 3,449,020
Construction in Progress	5,408,887	2,741,483	(6,510,590)	1,639,780
Subtotal	8,857,907	2,741,483	(6,510,590)	5,088,800
Capital Assets being Depreciated:				
Water System	81,958,863	1,281,145	-	83,240,008
Sewer System	108,897,341	6,625,735	(490,110)	115,032,966
Office Building and Improvements	20,169,027	32,007	-	20,201,034
Equipment and Other	5,760,727	139,311	(790,860)	5,109,178
Subtotal	216,785,958	8,078,198	(1,280,970)	223,583,186
Accumulated Depreciation:				
Water System	(20,660,910)	(1,053,289)	-	(21,714,199)
Sewer System	(35,277,449)	(1,800,017)	209,994	(36,867,472)
Office Building and Improvements	(6,418,726)	(566,022)	-	(6,984,748)
Equipment and Other	(3,419,148)	(354,573)	790,861	(2,982,860)
Subtotal	(65,776,233)	(3,773,901)	1,000,855	(68,549,279)
Net Capital Assets	\$ 159,867,632	\$ 7,045,780	\$ (6,790,705)	\$ 160,122,707
2020				
	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Capital Assets not being Depreciated:				
Land and Land Rights	\$ 3,449,020	\$ -	\$ -	\$ 3,449,020
Construction in Progress	3,122,248	4,408,632	(2,121,993)	5,408,887
Subtotal	6,571,268	4,408,632	(2,121,993)	8,857,907
Capital Assets being Depreciated:				
Water System	80,726,359	1,262,937	(30,433)	81,958,863
Sewer System	106,082,539	2,814,802	-	108,897,341
Office Building and Improvements	20,152,608	25,181	(8,762)	20,169,027
Equipment and Other	4,923,891	927,936	(91,100)	5,760,727
Subtotal	211,885,397	5,030,856	(130,295)	216,785,958
Accumulated Depreciation:				
Water System	(19,624,786)	(1,036,734)	610	(20,660,910)
Sewer System	(33,596,458)	(1,680,991)	-	(35,277,449)
Office Building and Improvements	(5,850,943)	(570,821)	3,038	(6,418,726)
Equipment and Other	(3,132,630)	(332,508)	45,990	(3,419,148)
Subtotal	(62,204,817)	(3,621,054)	49,638	(65,776,233)
Net Capital Assets	\$ 156,251,848	\$ 5,818,434	\$ (2,202,650)	\$ 159,867,632

SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 4 LONG-TERM DEBT

Long-term debt outstanding consisted of direct borrowings as follows:

<u>Description</u>	<u>2021</u>	<u>2020</u>
2012 \$1,859,000 loan issued for utility construction, secured by the revenue of the system, payable \$97,842 annually through the year 2031, plus interest at .25 annual percentage rate.	\$ 978,421	\$ 1,076,264
2013 loan issued for utility construction: \$7,810,000 authorized, \$7,093,146 drawn to December 31, 2021, secured by the revenue of the system. Based on draws to December 31, 2021, payable \$437,681 annually through the year 2032, plus interest at .50 annual percentage rate.	4,814,494	4,994,972
2021 \$450,000 Public Works Trust Fund Loan: \$0 drawn to December 31, 2021, payable annually through the year 2026, plus interest at .47 annual percentage rate.	-	-
Subtotal	5,792,915	6,071,236
Less: Current Maturities	(535,523)	(514,090)
Total	<u>\$ 5,257,392</u>	<u>\$ 5,557,146</u>

Long-term debt service requirements to maturity are as follows (based on draws received through December 31, 2021):

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 535,523	\$ 26,356	\$ 561,879
2023	535,523	24,086	559,609
2024	535,523	21,653	557,176
2025	535,523	19,219	554,742
2026	535,523	16,786	552,309
2027-2031	2,677,617	47,437	2,725,054
2032	437,683	2,188	439,871
Total	<u>\$ 5,792,915</u>	<u>\$ 157,725</u>	<u>\$ 5,950,640</u>

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 5 CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Amounts Due Within One Year
<u>2021</u>					
Public Works Trust Fund					
Loans	\$ 6,071,236	\$ 248,294	\$ (526,615)	\$ 5,792,915	\$ 535,523
Compensated Absences	436,693	445,501	(417,608)	464,586	402,000
Net Pension Liability PERS 1	642,988	-	(396,288)	246,700	-
Net Pension Liability PERS 2/3	304,435	-	(304,435)	-	-
Other Postemployment					
Benefits Liability	1,614,512	128,697	(245,083)	1,498,126	-
Total	<u>\$ 9,069,864</u>	<u>\$ 822,492</u>	<u>\$ (1,890,029)</u>	<u>\$ 8,002,327</u>	<u>\$ 937,523</u>
<u>2020</u>					
Public Works Trust Fund					
Loans	\$ 5,750,844	\$ 829,798	\$ (509,406)	\$ 6,071,236	\$ 514,090
Compensated Absences	365,442	394,274	(323,023)	436,693	309,000
Net Pension Liability PERS 1	745,373	-	(102,385)	642,988	-
Net Pension Liability PERS 2/3	242,962	61,473	-	304,435	-
Other Postemployment					
Benefits Liability	1,080,201	541,519	(7,208)	1,614,512	-
Total	<u>\$ 8,184,822</u>	<u>\$ 1,827,064</u>	<u>\$ (942,022)</u>	<u>\$ 9,069,864</u>	<u>\$ 823,090</u>

NOTE 6 PENSION PLAN

The following table represents the aggregate pension amounts for all plans as of and for the years ended December 31:

	2021	2020
Pension Liabilities	\$ 246,700	\$ 947,423
Pension Assets	(2,583,430)	-
Deferred Outflows of Resources	369,422	353,816
Deferred Inflows of Resources	2,672,306	294,089
Pension Expense	(548,015)	23,655

State Sponsored Pension Plans

Substantially all of the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 6 PENSION PLAN (CONTINUED)

State Sponsored Pension Plans (Continued)

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98540-8380

Or the DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS Plans 1 and 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 - provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and nonduty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions - The PERS Plan 1 member contribution rate is established by state statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 6 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Contributions (Continued) - The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) were as follows:

<u>PERS Plan 1 Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
<u>2021</u>		
January through June:		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.87	-
Administrative Fee	0.18	-
Total	<u>12.97 %</u>	<u>6.00 %</u>
July through December:		
PERS Plan 1	10.07 %	6.00 %
Administrative Fee	0.18	-
Total	<u>10.25 %</u>	<u>6.00 %</u>
<u>2020</u>		
January through August:		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.76	-
Administrative Fee	0.18	-
Total	<u>12.86 %</u>	<u>6.00 %</u>
September through December:		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.87	-
Administrative Fee	0.18	-
Total	<u>12.97 %</u>	<u>6.00 %</u>

The District's actual contributions to the plan were \$140,233 and \$138,997 for the years ended December 31, 2021 and 2020, respectively.

PERS Plan 2/3 - provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65.

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 6 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

PERS Plan 2/3 (Continued) - PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3% for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 - Defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions - The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 6 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) were as follows:

<u>PERS Plan 2/3 Actual Contribution Rates</u>	<u>Employer 2/3</u>	<u>Employee 2</u>	<u>Employee 3</u>
<u>2021</u>			
January through June:			
PERS Plan 2/3	7.92 %	7.90 %	Varies
PERS Plan 1 UAAL	4.87	-	Varies
Administrative Fee	0.18	-	Varies
Total	<u>12.97 %</u>	<u>7.90 %</u>	<u>Varies</u>
July through December:			
PERS Plan 2/3	6.36 %	6.36 %	Varies
PERS Plan 1 UAAL	3.71	-	Varies
Administrative Fee	0.18	-	Varies
Total	<u>10.25 %</u>	<u>6.36 %</u>	<u>Varies</u>
<u>2020</u>			
January through August:			
PERS Plan 2/3	7.92 %	7.90 %	Varies
PERS Plan 1 UAAL	4.76	-	Varies
Administrative Fee	0.18	-	Varies
Total	<u>12.86 %</u>	<u>7.90 %</u>	<u>Varies</u>
September through December:			
PERS Plan 2/3	7.92 %	7.90 %	Varies
PERS Plan 1 UAAL	4.87	-	Varies
Administrative Fee	0.18	-	Varies
Total	<u>12.97 %</u>	<u>7.90 %</u>	<u>Varies</u>

The District's actual contributions to the plan were \$233,295 and \$229,507 for the years ended December 31, 2021 and 2020, respectively.

Actuarial Assumptions

The 2021 total pension liability/(asset) (TPL/A) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2019 Economic Experience Study*.

The 2020 total pension liability/(asset) (TPL/A) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2019 Economic Experience Study*.

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 6 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Additional 2021 assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. Additional 2020 assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL/A was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021 and June 30, 2020. 2021 Plan liabilities/(assets) were rolled forward from June 30, 2020, to June 30, 2021, and 2020 Plan liabilities/(assets) were rolled forward from June 30, 2019 to June 30, 2020, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary Increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment Rate of Return:** 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were no changes in assumptions between the 2021 and 2020 valuations. There were changes in methods between the 2021 and 2020 valuations.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a noncontribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability/(asset) measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year-end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 6 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

There were changes in methods and assumptions between the 2020 and 2019 valuations.

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at leg.wa.gov/osa.
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump-sum and Washington State average wage. OSA set these values at 2018, and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See leg.wa.gov/osa for more information on this method change.

Discount Rate

The discount rate used to measure the total pension liability/(asset) for all DRS plans was 7.4%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability/(asset).

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various future times.

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 6 PENSION PLAN (CONTINUED)

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

As of June 30, 2021 and 2020:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Percent Long-Term Expected Real Rate of Return Arithmetic</u>
Fixed Income	20 %	2.20 %
Tangible Assets	7	5.10
Real Estate	18	5.80
Global Equity	32	6.30
Private Equity	23	9.30
Total	<u>100 %</u>	

Sensitivity of NPL/(Asset)

The table below presents the District's proportionate share of the net pension liability/(asset) calculated using the applicable discount rate, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than applicable discount rate.

	<u>1% Decrease (6.4%)</u>	<u>Current Discount Rate (7.4%)</u>	<u>1% Increase (8.4%)</u>
<u>2021</u>			
PERS 1	\$ 420,271	\$ 246,700	\$ 95,332
PERS 2/3	(735,969)	(2,583,430)	(4,104,814)
<u>2020</u>			
PERS 1	\$ 805,380	\$ 642,988	\$ 501,367
PERS 2/3	1,894,283	304,435	(1,004,803)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 6 PENSION PLAN (CONTINUED)

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2021 and 2020, the District reported a total pension liability (asset) for its proportionate share of the net pension liabilities/(assets) as follows (measured as of June 30, 2021 and 2020):

	Liability (Asset)	
	2021	2020
PERS 1	\$ 246,700	\$ 642,988
PERS 2/3	(2,583,430)	304,435
Total	<u>\$ (2,336,730)</u>	<u>\$ 947,423</u>

The District's proportionate share of the collective net pension liabilities/(assets) was as follows:

	Proportionate Share 6/30/20	Proportionate Share 6/30/20	Change in Proportion
PERS 1	0.018212%	0.020201%	0.001989%
PERS 2/3	0.023804%	0.025934%	0.002130%

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	0.019384%	0.018212%	-0.001172%
PERS 2/3	0.025013%	0.023804%	-0.001209%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations*.

Pension Expense

For the years ended December 31, 2021 and 2020, the District recognized pension expense as follows:

	2021	2020
PERS 1	\$ 24,364	\$ (16,610)
PERS 2/3	(572,379)	40,265
Total	<u>\$ (548,015)</u>	<u>\$ 23,655</u>

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 6 PENSION PLAN (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2021</u>		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	273,757
Changes of Assumptions	-	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	61,977	-
Total	<u>\$ 61,977</u>	<u>\$ 273,757</u>
PERS 2/3:		
Differences Between Expected and Actual Experience	\$ 125,473	\$ 31,670
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	2,159,141
Changes of Assumptions	3,775	183,466
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	72,169	24,272
Contributions Subsequent to the Measurement Date	106,028	-
Total	<u>\$ 307,445</u>	<u>\$ 2,398,549</u>
Total all Plans	<u>\$ 369,422</u>	<u>\$ 2,672,306</u>

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 6 PENSION PLAN (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2020</u>		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	3,580
Changes of Assumptions	-	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	72,219	-
Total	<u>\$ 72,219</u>	<u>\$ 3,580</u>
PERS 2/3:		
Differences Between Expected and Actual Experience	\$ 108,984	\$ 38,153
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	15,461
Changes of Assumptions	4,336	207,956
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	49,879	28,939
Contributions Subsequent to the Measurement Date	118,398	-
Total	<u>\$ 281,597</u>	<u>\$ 290,509</u>
Total all Plans	<u>\$ 353,816</u>	<u>\$ 294,089</u>

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>PERS 1</u>	<u>PERS 2/3</u>
2022	\$ (72,518)	\$ (577,539)
2023	(66,453)	(538,746)
2024	(62,834)	(517,711)
2025	(71,952)	(563,245)
2026	-	(5,302)
Thereafter	-	5,411
Total	<u>\$ (273,757)</u>	<u>\$ (2,197,132)</u>

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the years ended December 31:

	2021	2020
OPEB Liabilities	\$ 1,498,126	\$ 1,614,512
Deferred Outflows of Resources	6,016	4,170
OPEB Expense	(104,562)	541,519

The District provides its retirees employer subsidies for postemployment medical insurance benefits (OPEB) through the Public Employees Benefits Board (PEBB). The actual medical costs are paid through annual fees and premiums to the PEBB.

General Information about the OPEB Plan

Plan Description - The PEBB was created within the Washington State Health Care Authority to administer medical, dental and life insurance plans for public employees and retirees and their dependents as a single employer plan. District employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

Benefits Provided - The Washington State Health Care Authority (HCA) administers PEBB plan benefits. For medical insurance coverage, the HCA has two claims pools: one covering employees and nonmedicare eligible retirees, and the other covering retirees enrolled in Medicare Parts A and B. Each participating employer pays a portion of the premiums for active employees. For retirees, participating employers provide two different subsidies: an explicit subsidy and an implicit subsidy.

The explicit subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation dates of June 30, 2021 and 2020, the explicit subsidy for post-65 retirees and spouses is the lesser of \$183 or 50% of the monthly premiums. The retirees and spouses currently pay the premium minus \$183 when the premium is over \$366 per month and pay half the premium when the premium is lower than \$366.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post-65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Employees Covered by Benefit Terms

At December 31, the following employees were covered by the benefit terms:

	<u>2021</u>	<u>2020</u>
Inactive Employees or Beneficiaries Currently Receiving Benefit Payments	4	3
Inactive Employees Entitled to But Not Yet Receiving Benefit Payments	-	-
Active Employees	33	32

Funding Policy

The plan is funded on a pay-as-you-go basis and there are no assets accumulating in a qualifying trust.

Contributions

The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2021 and 2020, and was determined using the alternative measurement method as of that date. All significant assumptions utilized in the alternative measurement were provided by the Washington State Actuary.

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Total OPEB Liability (Continued)

The alternative measurement was based on the following methods and assumptions:

Methodology:

Actuarial Cost Method

Entry Age

Amortization Method

Recognized Immediately

Assumptions:

Discount Rate - Based on Bond Buyer General

Obligation 20-Bond Municipal Index:

	<u>2021</u>	<u>2020</u>
Beginning of Measurement Year	2.21%	3.50%
End of Measurement Year	2.16%	2.21%
Projected Salary Changes	3.50%	3.50%
	Plus Service-Based Increases	
Health Care Trend Rates:		
2021	Initial Rate ranges from approximately 2% to 11%, reaching an ultimate rate of approximately 4.3% in 2075.	
2020	Initial Rate is approximately 7%, trends down to approximately 5% in 2020.	

2021 Trend rate assumptions vary by medical plan. For additional detail on the health care trend rates, see Office of the State Actuary's 2020 PEBB OPEB Actuarial Valuation Report.

2020 Trend rate assumptions vary slightly by medical plan. For additional detail on the health care trend rates, see Office of the State Actuary's 2018 PEBB OPEB Actuarial Valuation Report.

	<u>2021</u>	<u>2020</u>
Mortality Rates:		
Base Mortality Table	PubG.H 2010 (General)	Healthy RP-2000
Age Setback	0 Years	1 Year
Mortality Improvements	MP-2017 Long-Term Rates	100% Scall BB
Projection Period	Generational	Generational
Inflation Rate	2.75%	2.75%
Post-Retirement Participation Percentage	65.00%	
Percentage with Spouse Coverage	45.00%	

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Total OPEB Liability

	2021	2020
Balance - Beginning of Year	\$ 1,614,512	\$ 1,080,201
Service Cost	91,132	59,483
Interest	37,565	39,764
Changes in Experience and Data Assumptions	(233,259)	442,272
Changes in Benefit Terms	-	-
Benefit Payments	(11,824)	(7,208)
Other	-	-
Total	<u>\$ 1,498,126</u>	<u>\$ 1,614,512</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate and Discount Rate

The following presents the total OPEB liability of the District calculated using a discount rate and healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current discount rate and health care cost trend rates:

	1% Decrease	Current Rate	1% Increase
<u>2021</u>			
Discount Rate	\$ 1,828,346	\$ 1,498,126	\$ 1,240,455
Healthcare Cost Trend Rate	1,200,680	1,498,126	1,896,033
<u>2020</u>			
Discount Rate	\$ 1,994,686	\$ 1,614,512	\$ 1,320,745
Healthcare Cost Trend Rate	1,275,195	1,614,512	2,073,498

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The District recognized OPEB expense for the year ended December 31, as follows:

	2021	2020
Service Cost	\$ 91,132	\$ 59,483
Interest Cost	37,565	39,764
Changes in Experience and Data Assumptions	(233,259)	442,272
Total	<u>\$ (104,562)</u>	<u>\$ 541,519</u>

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

At December 31, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2021</u>		
Contributions Subsequent to the Measurement Date	\$ 6,016	\$ -
<u>2020</u>		
Contributions Subsequent to the Measurement Date	\$ 4,170	\$ -

Deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the following year.

NOTE 8 DEFERRED COMPENSATION

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the state of Washington. The Plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District will match employee contributions up to \$250 per month for full-time employees and \$125 for part-time employees. District and employee contributions during 2021, were \$91,125 and \$197,325, respectively. The District and employee contributions during 2020, were \$86,950 and \$173,600, respectively.

NOTE 9 COMMITMENTS

The District is obligated under various contracts for construction in progress in the combined amount of \$4,702,670 of which \$4,606,426 has been expended as of December 31, 2021. In addition, the District is obligated to the City of Everett to pay for a portion of certain city projects.

SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 9 COMMITMENTS (CONTINUED)

The District does not record a liability and related asset for city project billings until billing has been received. As of December 31, 2021, the District's share of the projects is estimated to be as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ 632,000
2023	768,000
2024	752,000
2025	820,800
2026	1,568,000
2026-2030	17,528,000
Total	<u>\$ 22,068,800</u>

NOTE 10 RISK MANAGEMENT

The District is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 166 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices, prior wrongful acts, and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The board of directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 10 RISK MANAGEMENT (CONTINUED)

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance, and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A board of directors governs WCIA, which is comprised of one designated representative from each member. The board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day-to-day operations of WCIA.

In the past three years (2021, 2020, and 2019), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

NOTE 11 MAJOR SUPPLIERS

All sewage collected by the District is treated by the City of Everett and the Department of Natural Resources / King County, Washington.

Water purchased by the District is supplied by the City of Everett, the Clearview Water Supply Agency, and Alderwood Water and Wastewater District. In 2004, the District negotiated a 50-year supply contract for water with the Clearview Water Supply Agency.

NOTE 12 CLEARVIEW WATER SUPPLY AGENCY JOINT VENTURE

During 2004, the District negotiated a 50-year supply contract for water with the Clearview Water Supply Agency (CWSA). CWSA is a municipal corporation formed by Alderwood Water and Sewer District, Silver Lake Water and Sewer District, and Cross Valley Water District. A three-member board with each member district providing a representative governs CWSA. The purposes of CWSA is to provide water to the members and maintain and operate certain facilities. CWSA currently has no plant and equipment; the member districts jointly own the facilities. Alderwood Water and Sewer District has been contracted to maintain and operate the facilities as well as provide administrative support for CWSA.

**SILVER LAKE WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 12 CLEARVIEW WATER SUPPLY AGENCY JOINT VENTURE (CONTINUED)

CWSA purchases all of its water from Alderwood Water and Sewer District at the District's cost, which includes the wholesale cost of water from the City of Everett and the associated pumping costs. The members are responsible for all expenses based on metered water use and an agreed upon expense allocation formula. In order to ensure that revenues are sufficient to meet the expenses, monthly charges to the three members are equal to the monthly expenses. Annual financial statements are available by contacting the Clearview Water Supply Agency at 3626 – 156th St. SW, Lynnwood, WA 98087 or by calling (425) 743-4605.

District transactions with CWSA consisted of water purchases, maintenance costs, and reimbursement of construction costs expended by CWSA. Water purchases and maintenance costs were \$1,840,569 and \$1,653,611 for the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, accounts payable included \$338,537 and \$232,247, respectively, due to CWSA.

NOTE 13 LEASES

The District leases space for cell towers on certain reservoirs under noncancelable provisions of operating leases. Future rental income due to the District under the noncancelable portion of the leases is as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 159,715
2022	143,324
2023	72,904
2024	49,394
2025	30,254
Total	<u>\$ 455,591</u>

REQUIRED SUPPLEMENTARY INFORMATION

SILVER LAKE WATER AND SEWER DISTRICT
SCHEDULES OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
YEARS ENDED JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS*

	2021	2020	2019	2018
Total OPEB Liability - Beginning	\$ 1,614,512	\$ 1,080,201	\$ 1,040,459	\$ 1,001,598
Service Cost	91,132	59,483	59,063	70,464
Interest	37,565	39,764	42,308	38,315
Changes in Experience and Data Assumptions	(233,259)	442,272	(48,917)	(66,274)
Changes in Benefit Terms	-	-	-	-
Benefit Payments	(11,824)	(7,208)	(12,712)	(3,644)
Other Changes	-	-	-	-
Total OPEB Liability - Ending	<u>\$ 1,498,126</u>	<u>\$ 1,614,512</u>	<u>\$ 1,080,201</u>	<u>\$ 1,040,459</u>
 Covered Payroll	 \$ 3,323,865	 \$ 2,920,614	 \$ 2,675,411	 \$ 2,469,473
 Total OPEB Liability as a Percentage of Covered Payroll	 45.07%	 55.28%	 40.38%	 42.13%

Notes to Schedule:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

* Until a full 10-year trend is compiled, only information for those years available is presented.

**SILVER LAKE WATER AND SEWER DISTRICT
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY/(ASSET)
YEARS ENDED JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS***

PERS 1

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.020201%	\$ 246,700	\$ 3,101,817	7.95%	88.74%
2020	0.018212%	642,988	2,770,419	23.21%	68.64%
2019	0.019384%	745,373	2,718,524	27.42%	67.12%
2018	0.018634%	832,194	2,477,600	33.59%	63.22%
2017	0.019119%	907,191	2,346,535	38.66%	61.24%
2016	0.019197%	1,030,986	2,183,206	47.22%	57.03%
2015	0.018057%	944,542	1,973,556	47.86%	59.10%
2014	0.018145%	914,085	1,766,750	51.74%	61.19%
2013	0.016958%	990,906	1,607,293	61.65%	0.00%

Notes to Schedule:

* Information is presented only for those years for which information is available.

PERS 2/3

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.025934%	\$ (2,583,430)	\$ 3,101,817	-83.29%	120.29%
2020	0.023804%	304,435	2,770,419	10.99%	97.22%
2019	0.025013%	242,962	2,718,524	8.94%	97.77%
2018	0.024006%	409,879	2,477,600	16.54%	95.77%
2017	0.023431%	814,124	2,297,204	35.44%	90.97%
2016	0.022660%	1,140,933	2,104,205	54.22%	85.82%
2015	0.021377%	763,802	1,896,648	40.27%	89.20%
2014	0.021249%	429,524	1,691,204	25.40%	93.29%
2013	0.019936%	851,252	1,533,832	55.50%	0.00%

Notes to Schedule:

* Information is presented only for those years for which information is available.

**SILVER LAKE WATER AND SEWER DISTRICT
SCHEDULES OF EMPLOYER PENSION CONTRIBUTIONS
YEARS ENDED DECEMBER 31 (EMPLOYER REPORTING DATE)
LAST 10 FISCAL YEARS***

PERS 1

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2021	\$ 140,233	\$ (140,233)	\$ -	\$ 3,262,636	4.30%
2020	138,997	(138,997)	-	2,897,816	4.80%
2019	136,963	(136,963)	-	2,766,141	4.95%
2018	132,137	(132,137)	-	2,610,095	5.06%
2017	138,249	(138,249)	-	2,376,391	5.82%
2016	114,244	(114,244)	-	2,278,428	5.01%
2015	96,339	(96,339)	-	2,098,914	4.59%
2014	77,826	(77,826)	-	1,834,833	4.24%
2013	59,441	(59,441)	-	1,744,386	3.41%

Notes to Schedule:

1. Plan 1 contributions in 2017 include \$21,878 for excess compensation.

* Information is presented only for those years for which information is available.

PERS 2/3

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2021	\$ 233,295	\$ (233,295)	\$ -	\$ 3,262,636	7.15%
2020	229,507	(229,507)	-	2,897,816	7.92%
2019	213,354	(213,354)	-	2,766,141	7.71%
2018	195,751	(195,751)	-	2,610,095	7.50%
2017	162,671	(162,671)	-	2,376,391	6.85%
2016	136,384	(136,384)	-	2,189,149	6.23%
2015	113,652	(113,652)	-	2,020,837	5.62%
2014	87,859	(87,859)	-	1,759,065	4.99%
2013	80,741	(80,741)	-	1,669,683	4.84%

Notes to Schedule:

* Information is presented only for those years for which information is available.

SUPPLEMENTARY INFORMATION

SILVER LAKE WATER AND SEWER DISTRICT
DEPARTMENTAL STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2021 AND 2020

	Sewer		Water		Percentage of Sewer Operating Revenue		Percentage of Water Operating Revenue		Total		Percentage of Total Revenue	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
OPERATING REVENUES												
Service Charges	\$ 16,424,512	\$ 14,751,349	\$ 9,400,647	\$ 6,280,127	98.4 %	98.5 %	96.2 %	93.7 %	\$ 25,825,159	\$ 21,031,476	97.6 %	97.0 %
Permits	68,736	76,464	84,100	42,670	0.4	0.5	0.9	0.6	152,836	119,134	0.6	0.6
Miscellaneous	190,835	146,336	287,602	378,312	1.1	1.0	2.9	5.7	478,437	524,648	1.8	2.4
Total Operating Revenues	16,684,083	14,974,149	9,772,349	6,701,109	100.0	100.0	100.0	100.0	26,456,432	21,675,258	100.0	100.0
OPERATING EXPENSES												
Operation Expenses	10,282,435	9,494,614	2,810,131	2,599,361	61.6	63.4	28.8	38.8	13,092,566	12,093,975	49.5	55.8
Maintenance Expenses	782,557	938,564	367,309	589,792	4.7	6.3	3.8	8.8	1,149,866	1,528,356	4.4	7.1
General and Administrative	2,120,733	2,446,999	3,197,128	3,592,041	12.7	16.3	32.7	53.6	5,317,861	6,038,740	20.1	27.9
Depreciation	2,239,954	2,122,875	1,533,947	1,498,179	13.4	14.2	15.7	22.4	3,773,901	3,621,054	14.3	16.7
Total Operating Expenses	15,425,679	15,002,752	7,908,515	8,279,373	92.5	100.2	80.9	123.6	23,334,194	23,282,125	88.2	107.4
OPERATING INCOME (LOSS)	1,258,404	(28,603)	1,863,834	(1,578,264)	7.5	(0.2)	19.1	(23.6)	3,122,238	(1,606,867)	11.8	(7.4)
NONOPERATING REVENUE (EXPENSE)												
Investment and Assessment Income	39,613	243,643	5,038	38,716	0.2	1.6	0.1	0.6	44,651	282,359	0.2	1.3
Interest on Long-Term Debt	(26,982)	(28,342)	-	-	(0.2)	(0.2)	-	-	(26,982)	(28,342)	(0.1)	(0.1)
Private Property Improvements	-	(18,934)	-	-	-	(0.1)	-	-	-	(18,934)	-	(0.1)
Net Gain (Loss) on Disposal of Assets	(847,857)	4,767	138,714	5,157	(5.1)	0.0	1.4	0.1	(709,143)	9,924	(2.7)	0.1
Total Nonoperating Revenue (Expense)	(835,226)	201,134	143,752	43,873	(5.0)	1.3	1.5	0.7	(691,474)	245,007	(2.6)	1.1
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	423,178	172,531	2,007,586	(1,534,391)	2.5	1.2	20.5	(22.9)	2,430,764	(1,361,860)	9.2	(6.3)
Capital Contributions	3,097,017	3,537,077	1,385,163	3,175,217	18.6	23.6	14.2	47.4	4,482,180	6,712,294	16.9	31.0
CHANGE IN NET POSITION	\$ 3,520,195	\$ 3,709,608	\$ 3,392,749	\$ 1,640,826	21.1 %	24.8 %	34.7 %	24.5 %	6,912,944	5,350,434	26.1 %	24.7 %
Net Position - Beginning of Year									199,364,637	194,014,203		
Net Position - End of Year									\$ 206,277,581	\$ 199,364,637		

SILVER LAKE WATER AND SEWER DISTRICT
DEPARTMENTAL STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2021 AND 2020

	Sewer		Percentage of Sewer Operating Revenue		Water		Percentage of Water Operating Revenue		Total		Percentage of Total Revenue	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Salaries	\$ 1,070,093	\$ 984,974	6.4 %	6.6 %	\$ 1,793,764	\$ 1,658,571	18.4 %	24.8 %	\$ 2,863,857	\$ 2,643,545	10.8 %	12.2 %
Employee Benefits and Payroll Taxes	271,375	813,123	1.6	5.4	294,388	904,417	3.0	13.5	565,763	1,717,540	2.1	7.9
Insurance and Bonding	65,601	61,259	0.4	0.4	73,975	69,080	0.8	1.0	139,576	130,339	0.5	0.6
Miscellaneous	42,234	26,568	0.3	0.2	76,495	65,061	0.8	1.0	118,729	91,629	0.5	0.4
General Office Expense	317,462	233,657	1.9	1.6	394,043	406,539	4.0	6.1	711,505	640,196	2.7	3.0
Professional Fees	149,123	142,096	0.9	1.0	98,844	151,343	1.0	2.3	247,967	293,439	0.9	1.4
State Excise Tax	204,845	185,022	1.2	1.2	465,619	337,030	4.8	5.0	670,464	522,052	2.5	2.4
Total	\$ 2,120,733	\$ 2,446,699	12.7 %	16.3 %	\$ 3,197,128	\$ 3,592,041	32.7 %	53.6 %	\$ 5,317,861	\$ 6,038,740	20.1 %	27.9 %



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
Silver Lake Water and Sewer District
Bothell, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Silver Lake Water and Sewer District (the District) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 12, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Bellevue, Washington
December 12, 2022



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